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Book Review

The Third Pillar: How Markets and the State Leave the Community Behind, by Raghuram G. Rajan, Harper Collins India (2019), Preface xxviii, Text Pages 1- 400; notes and Index, 401-434.

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A review essay

"As I began my life as a bookkeeper, I developed an enormous respect for facts and figures – no matter how small." John D Rockefeller (1839–1937), founder of Standard Oil Co. and the University of Chicago.

This book deals with a vital, but neglected, feature of economies in general, and America, in particular – the declining role of Community relative to the State and the Market.[1] Written in clear, flowing sentences it embodies the knowledge of a very distinguished academic, and former central bank governor. Nevertheless, it is lacking in critical dimensions, as this review will try to elucidate.

Firstly, although only 400 pages in length, it ranges enormously across several centuries and many countries, to come up with suggestions that may not be relevant outside America or developed countries, at present. Secondly, the coverage of the same topics, scattered repeatedly across different chapters and parts, makes the content difficult to absorb. Thirdly, it does not clearly distinguish between the economic versus social dimensions of Community, which the author's recommendations can impact differently. Fourthly, it does not discuss earlier literature on Community – in particular, the Time Bank policy initiative. This review is organised into three sections, corresponding to the three parts of the book, followed by a concluding section.

The historical background

After a Preface and Introduction that significantly overlap, the book is written in three parts. The first part, titled "How the Pillars Emerged", with four chapters, is a rambling discourse on the evolution of modern capitalism, starting with the Great Plague of 1347 that led to the end of serfdom. It goes on to cover circumvention of the Church's Usury laws, the great inflation of the sixteenth century in Europe following the influx of precious metals, and the South Sea Bubble. Then it outlines crucial themes from Adam Smith, John Stuart Mill, Marx, Malthus and many other topics.

Chapter 3 documents John D Rockefeller's 1872 agreement with 26 Cleveland refiners, following which his Standard Oil Co. controlled 90% of refined oil in the USA. It goes back to the Chartist and Whig movements in England in the 1830s, which led to the destruction of threshing machines. It then U-turns back to the USA to cover the traumatic period of 1873–1896 when falling agricultural prices, due to limited gold supply, hurt farmers badly. (The deflation led to the Populist "Free Silver" movement to allow coinage of silver to alleviate the gold shortage. But following gold discoveries, the movement fizzled out.) Rajan then returns to Rockefeller, with the enactment in early 1900 of the Sherman Anti Trust Act to break up Standard Oil's monopoly, in response to public pressure.

This chapter is, presumably, meant to document and analyse populist movements of the time. Both chronologically and conceptually, it would have been better to deal with 1830s England and then progress to America in the 1870s and beyond. Historical content is easy to comprehend when there is chronological sequence within topics, and, if possible and suitable, the topics themselves are organised chronologically. That is not the case here.

The concluding Chapter 4 of Part I, titled "The Community in the Balance", continues – in above fashion – to hop, skip and jump across topics. It starts with a theoretical discussion of how crony capitalism, that supports monopoly pricing, facilitates authoritarianism. It goes on to the self-sustaining electoral patronage by Members of Parliament in India at present. Rajan then shifts into reverse gear to elaborate on the three industrial revolutions (steam engine, internal combustion engines, the microprocessor leading up to the Internet), and the anxiety caused by the ensuing economic change.

By this time, even the most seasoned reader would be feeling the strain. Finally, after 12 pages more, there is relief! A valuable section summarises how, following an 1874 Supreme Court judgement, the local tax funded, free public high school system in the USA emerged. Rajan adumbrates how many aspects of Community in the USA, largely revolve around the quality of the school district, and the ensuing "great residential sorting" among neighbourhoods.

[1] This review capitalises the words State, Market and Community to tag them; as well as Economic Community.

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Glossing over higher education "monopolies"

Despite extensive discussion of education and inequality throughout the book, the role of Ivy League universities in enhancing inequality has been glossed over.[2] They do so by various means, from the donations based admissions process (Golden, 2006) to grade inflation (New York Times, 2001). These practices ensure that the privileged who get in are virtually guaranteed to graduate and thereby command a hefty wage premium. This "Ivy League premium" is over and above the well known, and highly researched, wage premium for those with college degrees, which he discusses. While Rajan mentions "hereditary meritocracy", evidence is mounting that it is more heredity and less meritocracy (Stuart, 2018).

The damaging consequences of the postwar welfare state

The second part of the book titled "Imbalance", about the excessive growth of the state and market, starts in Chapter 5 (The Pressure to Promise), with the Beveridge Report of 1942, which was the foundation of the single insurance system welfare state in postwar UK. It is beyond the scope of this review to specifically analyse the welfare state outside America.

Instead, this will focus on American welfare schemes. Rajan starts to discuss the Social Security Act of 1935 (pp. 134–138) in the last section of Part 1.[3] Arguably, Social Security (and pensions) is a far more important issue than education for America. This Act completely transformed the nature of America, and shaped its current economy, society and culture. The Act basically *mandated* contributions by workers, for which they are given defined benefit pensions after retirement.[4]

Almost all discussion of Social Security has been about its economic feasibility – specifically, whether current workers are generating enough taxes to simultaneously pay out benefits to the retirees in this Pay as You Go scheme. The risk of having insufficient workers to pay current beneficiaries such as to bankrupt the Trust Fund is ever present in such schemes. Financial extrapolations abound.

Unfortunately, the social consequences of Social Security have rarely been discussed. Rajan insightfully quotes from Milton and Rose Friedman (1979) about its societal impact. In their words, prior to its inception,

"...children helped their parents out of love or duty. They now contribute to the support of someone else's parents out of compulsion or fear. The earlier transfers strengthened the bonds of the family; the compulsory transfers weakens them." (p. 170, this book, from "Free to Choose", Friedman & Friedman, 1979)

It can be said that Social Security, in effect, has *nationalised the family* and also weakened the broader support networks comprising Community (neighbours, relatives and friends). Citing Friedman's views, the Chartered Accountant and present RBI Board Member, Gurumurthy (2011) used and perhaps coined the aforementioned phrase ("nationalised the family"). Despite flagging this huge crisis of America and more generally, the "West", Rajan fails to do justice to the matter, as argued in the subsection that follows.[5]

Aid to (non?) families with dependent children

Further discussion about how one component of the Social Security Act contributed to America's decline in Community – in particular, that of the black family, is called for. The problems of the black family obviously go back to slavery, when black males were cruelly kept out of contact with mainstream white society. However, evidence clearly indicates that the problems of the black family were greatly compounded by misguided welfare policies.

To understand why, it is necessary to delve into The Great Society's War on Poverty under President Lyndon Johnson. Starting 1962, the War on Poverty greatly expanded welfare benefits and schemes. Specifically, the entitlement rules for single mothers were greatly eased.

Normally during a cyclical expansion when the unemployment rate falls, simultaneously the incidence of those on welfare (as distinct from unemployment insurance) also declines. However, in the early 1960s, welfare cases opened under Aid to Families with Dependent Children (AFDC) *rose* as the unemployment rate fell. Analysing these developments, in his capacity of Assistant Secretary of Labour in the Johnson Administration, the policy scholar Daniel Patrick Moynihan (Moynihan report, 1965) in his Report, had identified a structural break, in statistical parlance. The "Moynihan scissors", as it came to be called, had opened up.

Indeed, the original 1935 term Aid to Dependent Children was *expanded* to Aid to Families with Dependent Children in 1962. This was out of concern about a possible hostile reaction of the public to the authorisation of payments to unmarried mothers. While in the early years most payments went to widows, by 1962 all widows and their children had already been transferred, starting 1939, to the main Old-Age scheme, and categorised as Survivors. Thus, AFDC, in effect, had become Aid to *Non-Families* with Dependent Children! Disability Insurance, started in 1956, also spiralled enormously (Autor & Duggan, 2006).

The sharp rise in AFDC cases in the late sixties too, when unemployment was unusually low for four years, further

[2] The index lists "Education and schools" 15 times, with another 24 entries with different subheadings, and 4 more under colleges and universities! Further, in the index, while Harvard is listed about 15 times, these entries are merely citations of research papers, and do not discuss its various malpractices that are increasingly coming to light.

[3] This very vital sub section, both conceptually and chronologically, fits well at the start of this Part II.

[4] The goal of President F.D. Roosevelt, by introducing employer and employee taxes to fund it, was to give "the contributors a legal, moral and political right to collect their pensions. With those taxes in there, no damn politician can scrap my social security programme." p. 136

[5] Along these lines, I have stated, "Fiscal conservatives (i.e., nineteenth century liberals) such as Milton Friedman perennially criticized Social Security for weakening family ties. Yet the Aadhar card, modelled on the US Social Security card, is now being used for various transactions and benefits that will weaken family ties. What India is now emulating is not the West but what Ferguson has aptly characterized as The Great Degeneration (of the West)." (Moorthy, 2017, p. 189).

vindicated Moynihan's conclusions. By the 1970s, the rise in AFDC cases had spread to whites and other minorities. Thus, the rise in black welfare cases despite falling unemployment indicated the expansion was due to weakening family structure. Rajan does cite a 1970 book by Moynihan, but has not discussed the critical findings of his remarkably prescient 1965 Report.[6]

Schemes for Universal Benefit Income (UBI) schemes are being increasingly touted globally as the remedy for rising unemployment due to robots, and to eliminate the waste of bureaucratic schemes. Rajan sensibly points to the limitations of UBI, but with emphasis mostly on its fiscal consequences. He recommends more immigration to support the taxes to pay for pensions in rich countries (pp. 292–293). However, by attracting migrants, the welfare state contributes to the xenophobic backlash against them. All those who endorse generous welfare benefits and liberal immigration rules need to realise that these two are conflicting goals.

Implications of the difference between Social and Economic Community

The Preface posits that "the central question in this book is how we restore the balance between the pillars" (i.e. Community versus State and Market) "in the face of ongoing, disruptive technological change", and the concluding Part III (Chapters 9–13) of the book is titled "Restoring the Balance". On this fundamental point, I could not agree more. In analysing this matter, while what constitutes the State and Market are well known, what constitutes Community – the focus of this book – needs to be spelt out. The Merriam-Webster definition that Rajan adopts is as follows,

"According to the dictionary, a community is a social group of any size whose members reside in a specific locality, share government and often have a common cultural and historical heritage". p. xiv

This is a fine starting definition, which he adopts, and is quite useful in explaining the issues at stake. In my opinion, we need to distinguish between the economic dimension of Community (in the specific sense of unpaid transactions and activity) versus the broader societal sense (pertaining to race, ethnicity, religion and location) in which the word is used, and by Rajan too. Further, the implications of this difference call for analytical scrutiny. For verbal convenience, we shall refer to these two distinct dimensions as *Economic Community* and *Social Community* respectively.

Across the world, as capitalism takes hold, for meeting our needs, Economic Community in this specific sense of the unpaid sector (or activity) has been declining relative to the paid sector. Part of the relentless growth of capitalism is the tendency of the paid sector to hugely encroach upon the unpaid sector for activities it traditionally used to perform – especially child and adult care, and preparation of food. Social Security and similar schemes have greatly amplified this encroachment.

In the narrow sense, Economic Community has declined. This decline results in isolation and possibly alienation, but need not result in the social pathologies of the USA at present – high suicide, alcohol and depression rates among middle-age white males, well known facts highlighted in the Preface.

Indeed, this decline in Economic Community can occur *despite* cohesion in the broader social community, as in Japan and South Korea. They are subject to the same tendency – decline in unpaid relative to paid activity for personal services (child care etc.), automation leading to fewer manufacturing jobs, coupled with a rise in business, financial and personal services jobs. Yet they both are socially cohesive, without the tensions of the West, and America in particular, about immigrants, race and religion.

Further, in many emerging economies in recent years, while Economic Community has weakened with rapid growth, the dominant religious identity has grown stronger. In the social sense, Community has become stronger. Globally, there has been a sharp rise in recent elections, or continuation of, authoritarian leaders. Listed alphabetically by country, these are: Brazil, Bolsonaro; Hungary, Orban; India, Modi; Indonesia, Widido; Philippines, Duterte; United States, Trump; Turkey, Erdogan. There are more such leaders, but this list itself spans most continents and religions and races.

Populism has risen in both advanced economies struggling with huge layoffs, and in emerging economies with rising real incomes. These dangerous developments might warrant a general theory of populism based on the aggregative power of technology, with Internet and social media being its latest manifestation. However, this matter is outside the scope and length of this review.[7]

Given the divergent social and economic trends, broad policy responses to the weakening of Economic Community should be viewed with circumspection. Trying to foster what Rajan calls "inclusive localism" – harmonious multi ethnic multi religious schools and neighbourhoods may instead exacerbate these tensions.

Useful ideas to revive Economic Community

The book offers some useful ideas to revive Community, such as easing the tight zoning laws in the USA in select areas. Nevertheless, the concrete Time Bank initiatives, based on the book "Time Dollars" by Cahn and Rowe (1992) warrant not just a mention, but detailed analysis. Cahn (1999) posited three interlocking problems in America: (a) inequality in access to goods and services, (b) need to rebuild family, neighbourhood and community and (c) failure of public programmes to meet these needs.

Time Bank is a scheme to *voluntarily exchange* one hour of time for an hour of someone else's time. It now operates globally in many cities. A list of suitable Time Bank activities, ranging from child care to food delivery, is provided, for instance, at *hourexchangeportland.org*. Others can be

[6] This sub section draws upon facts from Blank and Blum (1997) and from other official sources about AFDC.

[7] In his monumental and encyclopaedic book "India After Gandhi", Ramachandra Guha provided pointers to recent trends along these lines. Prior to the demolition of the Babri Masjid, with growing ownership of TV sets, the epic serial Ramayana united a huge number of viewers, in a single activity across the country, as never before. "...the televised epic was introducing subtle changes in this pluralistic and decentralized religion". Among the Gods, "Ram was increasingly being seen... as the most important... of them all " (Guha, 2007, p. 586).

added to that list, such as cooking for potlucks and giving rides, instead of dialling for Uber. Cahn's basic conclusion is that, "work must be redefined so as to compensate those socially important tasks that need to be done but that are undervalued or undercompensated by the market economy" (Cahn, 1999). This conclusion is very sound. In his words, such schemes would "counter the centrifugal tendency of money to uproot community in pursuit of maximum return". Rajan has not discussed these useful proposals.

The prolific writings of the eminent sociologist Etizioni on Communitarianism (1994, 1996 etc.) also warrant mention. Etizioni (1986) insightfully pointed out that the responsible rite of passage in America for teenagers –working at McDonalds – only develops mechanical skills and not the complex, recurring web of non-commercial interactions by which the elderly and junior siblings are looked after in traditional societies. Robotisation of fast food, in Japan too, is now making McJobs redundant there too, while the laid off workers lack the personal, care-giving skills that are needed.

The laudable goal of Cahn is to enhance the centripetal force of Community to offset the centrifugal force of Money (more precisely, paid exchange).[8] Unfortunately, the Time Bank scheme is somewhat utopian, in my opinion. Invariably, those well above the average wage will choose to obtain unskilled personal services, which generally entail *only time*, by paying others well below the average wage to do so.

However, those at and certainly those below the average hourly wage would prefer to meet their needs for personal services by themselves and/or by Community, to avoid the transactions costs of paid exchange. As a factual matter, hours and schedules of work are, predominantly, unilaterally set by employers. As a result, workers cannot always optimally rebalance to "home production", unless they quit working, which is an extreme step.[9] Hence they end up taking in each other's laundry or baby sitting each other's kids or serving each other burgers, and so on. Such paid exchange amounts to "working more for less", a phrase that was in vogue in America, by the early 1990s.[10] Stagnation in living standards is a continuing and critical issue there.

In short, this book should be commended for raising a most vital issue pertaining to capitalism globally – the declining role of Community relative to Market and State. Nevertheless, substantive suggestions and detailed discussions to enhance the role of Community would have been valuable.

[8] This illuminating physics metaphor was earlier used by Etizioni (1996) in another context – the need to balance order versus autonomy.

[9] The pioneering paradigm of Becker (1965) deals with the allocation of time between what he calls market versus home production i.e. paid versus unpaid activity. However, such analysis erroneously assumes hours and schedules of work can be flexibly chosen by workers.

[10] This discussion draws upon and summarises a proposal, exploring the scope for efficiently rebalancing to unpaid activity for personal services in the USA, by reducing hours of work (Moorthy, 1994). A good policy would be to structure payroll taxes to incentivise employers to reduce hours of work **per annum**, not per week, while eliminating incentives for overtime, enacted by the 1938 Fair Labor Standards Act (Moorthy, 2012).

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